

CITY OF SHELBY

INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

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City of Shelby

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lisa Juhl	Mayor (Resigned August 2013)	January 2014
Brad Blum	Council Member/Mayor Pro-tem (Resigned August 2013)	January 2014
Doyle Gilland	Council Member	January 2014
Shawn Osbahr	Council Member	January 2016
Shelia Rihner	Council Member	January 2016
Bob Richmond	Council Member	January 2016
Christie Martin	City Clerk	Indefinite
Katie Goshorn	Attorney	Indefinite
Patricia Morris	Treasurer	Indefinite

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

September 19, 2013

Lonnie G. Muxfeldt

Certified Public
Accountant

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Independent Accountant's Examination Report

To the Honorable Mayor
and Members of City Council:

I have performed an examination of the City of Shelby pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, I have applied certain tests and procedures to selected accounting records and related information of the City of Shelby for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The procedures I performed are summarized as follows:

1. I reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. I reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. I reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. I obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. I reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. I reviewed the City's fiscal year 2012 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.

7. I reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. I reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. I reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. I reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. I reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. I reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
13. I reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. I reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. I reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. I reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, I identified various recommendations for the City. My recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

I was not engaged to and did not conduct an audit of the operations of the City of Shelby, the objective of which is the expression of opinions on financial statements. Accordingly, I do not express opinions on the City's financial statements. Had I performed additional procedures, or had I performed an audit of the City of Shelby, additional matters might have come to my attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Shelby and other parties to whom the City of Shelby may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Shelby during the course of my examination. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Murphy & Associates, CPA, P.C.

DETAILED RECOMENDATIONS

CITY OF SHELBY

DETAILED RECOMENDATIONS

FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2013

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparation and distribution.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing.

Recommendation – I realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts.

CITY OF SHELBY

DETAILED RECOMENDATIONS

FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2013

- (C) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been updated since 1990 by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendations – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should adopt and approve amounts sufficient to cover anticipated balances in all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (D) City Council Minutes – Chapter 372.13 of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for one meeting tested were not published within the fifteen day requirement. Chapter 21.5 of the Code of Iowa requires the minutes document the specific exemption under Chapter 21.5 of the Code of Iowa and state whether any action was taken upon re-entering open session. The specific Chapter of the Iowa Code was not stated in the minutes, nor was there documentation as to any action taken on the closed session upon re-entering open session.

Recommendation – The city should comply with the Chapter 21.5 of the Code of Iowa and publish City Council minutes within fifteen days, as required. Also, the City should comply with Chapter 21.5 of the Code of Iowa when entering closed session.

- (E) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the general fund, capital projects, water improvement sinking and ambulance functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

CITY OF SHELBY

DETAILED RECOMENDATIONS

FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2013

- (F) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Doyle Gilland, Council Member, owner of Gilland Trucking	Street maintenance	\$ 1,700
Shawn Osbahr, Council Member, owner Osbahr Trucking	Street maintenance	\$ 118

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions do not represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

Recommendation – Although the transactions were below the \$2,500 threshold of Chapter 362.5(k) of the Code of Iowa, the City should consult legal counsel to determine the disposition of this matter.

- (G) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The City has tax increment financing (TIF) debt of \$123,617 outstanding at June 30, 2013. The City had cash on hand of \$123,679 at June 30, 2013 in the Special Revenue, Urban Renewal Tax Increment Fund to pay for the TIF debt outstanding. Therefore, the City had \$62 more cash on hand than needed to pay the TIF debt outstanding. The Urban Renewal Report due December 1, 2012 was filed and approved by the City Council late.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

CITY OF SHELBY

DETAILED RECOMENDATIONS

FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2013

- (H) Separately Maintained Records – The City of Shelby Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- (I) Publications – Chapter 372.13(6) of the Code of Iowa requires publication of a summary of receipts within fifteen days of a meeting. The City failed to publish any receipts for the fiscal year. An Attorney General's opinion dated April 12, 1978 requires the annual publication of gross salaries paid by the City. The city failed to publish gross annual salaries according to the Attorney General's opinion dated April 12, 1978.

Recommendation – The City should publish within fifteen days of a meeting a summary of receipts required by Chapter 372.13(6) of the Code of Iowa. Also, the City should publish the annual gross salaries of the City according to the Attorney General's opinion of April 12, 1978.

- (J) Financial Condition – The Nature Trail, Debt Service, Capital Projects and Water Fund had deficit balances at June 30, 2013.

Recommendation – The City should investigate alternatives to eliminate the deficit balances in order to return these funds to a sound financial condition.

- (K) Unsubstantiated Disbursement – It was noted during testing that one disbursement did was not substantiated with supporting documentation .

Recommendation – All disbursements should be substantiated with proper supporting documentation before the claim is paid.

CITY OF SHELBY

SHELBY, IA 51570

NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an examination report on the City of Shelby, Iowa for the period July 1, 2012 through June 30, 2013. The examination was performed pursuant to Chapter 11.6 of the Code of Iowa.

Muxfeldt Associates, CPA, P.C. recommended the City establish segregation of duties over cash, cash receipts, disbursements, utility billing and financial reporting . Muxfeldt Associates, CPA, P.C. recommends the City comply with Chapters 12B.10B, 12C.2, 373.13, 21.5, 384.20, 372.13 (6) and 384.18. Muxfeldt Associates, CPA, P.C. also recommends that separately maintained records be included in the City's accounting records, deficit fund balances be eliminated and supporting documentation for disbursements before issuance of the claim.

A copy of the examination report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.